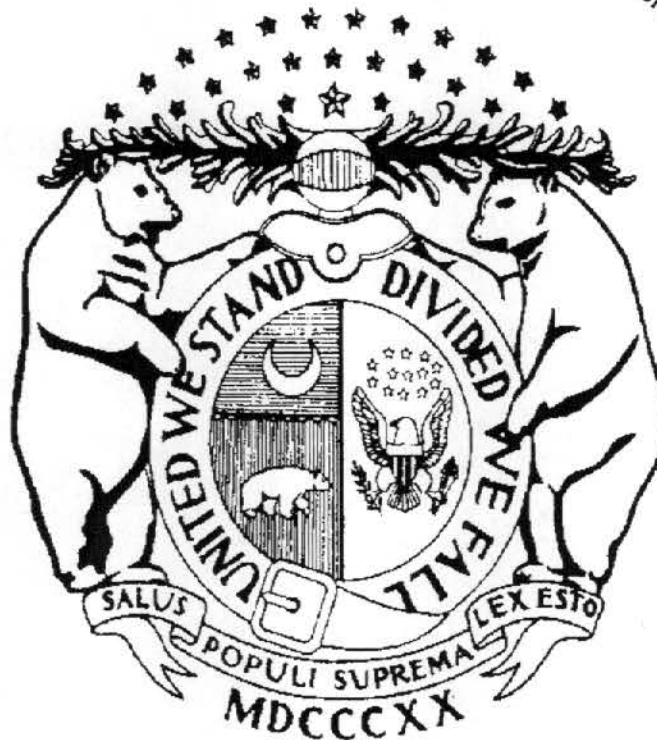


REPORT OF THE
FINANCIAL EXAMINATION OF
MONROE COUNTY FARMERS MUTUAL INSURANCE
COMPANY

AS OF
DECEMBER 31, 2007

FILED
MAR 06 2009
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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December 10, 2008
Paris, Missouri

Honorable Kip Stetzler, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

MONROE COUNTY FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 125 West Monroe, Paris, Missouri 65275, telephone number (660) 327-5203. This examination began on September 29, 2008, and was concluded on September 30, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2002, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management

Comment: The Articles of Incorporation require the Company's management to be vested in a Board consisting of nine members; however, it is the current practice of the Company to maintain a seven-member Board of Directors. It was recommended the Company abide by its Articles of Incorporation regarding the management of the Company, or amend the Articles of Incorporation to comply with the current practice of the Company.

Company Response: The Articles of Incorporation were amended to reduce the number of directors from nine to seven.

Current Findings: The Company adequately complied with its Articles of Incorporation during the exam period regarding number of directors.

Fidelity Bond and Other Insurance

Comment: It was recommended the Company obtain a fidelity bond with a coverage limit of at least \$50,000, the minimum suggested for a company its size in the guidelines promulgated by the NAIC.

Company Response: The Company increased its fidelity bond coverage to \$50,000.

Current Findings: The Company's current fidelity bond coverage level appeared adequate per the NAIC guidelines.

Territory and Plan of Operation

Comment: It was recommended that Company execute a written agreement with its agent that outlines the duties and responsibilities of both parties. The agreement should also specify a time limit for the delivery of fully completed applications to the home office and stipulate who is responsible for obtaining errors and omissions coverage for the agent.

Company Response: The Board of Directors approved the drafting of an agent agreement; however, the agreement has not been finalized.

Current Findings: The Company continues to operate without a written agent agreement (See the Territory and Plan of Operation section of this report).

Accounts and Records

Comment: It was recommended that the Company maintain its cash balances with the objective of keeping its bank balances below \$100,000 to avoid exceeding the FDIC coverage limit.

Company Response: Exceeding the FDIC insurance coverage limit is not normal practice and will be corrected.

Current Findings: Exceeding the insurance coverage limits on deposits did not appear to be a significant issue during the current examination period.

Accounts and Records

Comment: It was recommended that the Company implement a policy requiring two official approval signatures on checks exceeding a specified level.

Company Response: The Board of Directors decided the current check signing procedures are adequate.

Current Findings: After further review, due to the Company's size and close financial monitoring of the Board, the current check signing procedures appear adequate.

HISTORY

General

The Company was originally organized and incorporated on April 22, 1892, as Farmers' and Laborers' Co-operative Insurance Association of Monroe County, Missouri. On November 28, 1972, the Company changed its name to Monroe County Farmers Mutual Insurance Company.

The Company has a Certificate of Authority dated June 24, 2005, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Tuesday in February at the home office of the Company. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting.

Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. Due to the death of director Bob Diver in 2006, the Company only had six directors serving as of the examination date. The term for the vacant board position expires in 2009, and the Company intends to elect a director to fill the vacancy at that time. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Artie Whelan 34307 Monroe Road 346 Monroe City, Missouri	Farmer	2007-2010
H. Robert Decker 18061 Monroe 182 Lentner, Missouri	Farmer	2007-2010
Dane Kendrick 12245 Monroe Road 611 Paris, Missouri	Farmer	2005-2008
Danny Tanzey 26083 Highway 154 Paris, Missouri	Retired	2005-2008
Tully Tonsor 28970 Monroe Road 381 Monroe City, Missouri	Farmer	2006-2009
Marvin Wood 706 Ridge Street Shelbina, Missouri	Retired	2007-2010

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2007, were as follows:

Artie Whelan	President
H. Robert Decker	Vice-President
Dane Kendrick	Secretary/Treasurer
R. Jill Kendrick	Assistant Secretary

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On February 22, 2005, the Articles of Incorporation were amended to reduce the required number of directors from nine to seven and update the language of the document. The Bylaws were not amended during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The membership meeting minutes did not document the number of members present at the membership meetings. Therefore, it was not possible to determine whether quorum requirements were met. It is recommended the Company include attendance records in future membership meeting minutes in order to document that quorum requirements are met. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for their directors and officers. In addition, the Company's agent purchases errors and omissions insurance coverage.

The Company carries property coverage on its home office and contents, as well as general liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three part-time employees. Two of the employees receive monthly stipends

for the purpose of purchasing medical insurance. No other benefits are provided by the Company. It appears the Company has made adequate provisions for the benefits in the financial statements

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind, and liability insurance in all counties in the State of Missouri. The Company writes fire, and wind and liability coverages. The Company's policies are sold by one licensed agent, who receives a 15% commission.

The Company does not have a written agreement with its agent. It is recommended the Company adopt a written agreement with its agent that includes time limits for the delivery of fully completed applications to the home office and states who is responsible for obtaining errors and omissions coverage for the agent.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are written on a five-year basis. Property inspections are performed by the agent and adjusting functions are performed by the agent or independent adjusters when deemed necessary. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

The Company does not have a written policies and procedures manual in place. It is recommended the Company draft and approve a written manual. The manual should address such items as investment policies, underwriting guidelines, inspection and adjusting procedures, job descriptions, employee benefits, conflict of interest, and check signing policies.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Assessments</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	Net <u>Income</u>
2007	\$3,229,369	\$50,764	\$463,011	\$471,205	\$163,595	\$(193,746)	\$(30,151)
2006	3,259,240	39,080	425,428	627,144	152,555	(122,339)	30,216
2005	3,196,795	23,850	395,367	126,870	147,130	(12,079)	135,052
2004	3,037,894	0	336,125	205,855	149,535	(36,013)	114,747
2003	2,923,146	0	274,286	273,218	153,712	(46,275)	157,257

At year-end 2007, 1,013 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct	\$ 274,286	\$ 336,125	\$ 395,367	\$ 425,428	\$ 463,011
Assumed	0	0	0	0	0
Ceded	<u>(53,576)</u>	<u>(74,633)</u>	<u>(109,092)</u>	<u>(138,462)</u>	<u>(207,804)</u>
Net	<u>\$ 220,710</u>	<u>\$ 261,492</u>	<u>\$ 286,275</u>	<u>\$ 286,966</u>	<u>\$ 255,207</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company utilizes two different reinsurers, with one providing coverage for fire risks and the other providing coverage for wind and liability risks.

The Company has reinsurance through Farmers Mutual Reinsurance Company of Missouri (FMRC) for fire risks. Under the per risk section of the agreement, the Company retains \$35,000 on each risk, ceding the excess of up to \$650,000 per risk to FMRC. Under the annual aggregate section of the agreement, FMRC is liable for all losses exceeding 80% of the Company's annual

premium income, with a limit of \$1,000,000. The premium rate for 2007 fire coverage was 20% of the fire premium income.

The Company has reinsurance through Cameron Country Mutual Insurance Company (CCMIC) under a single reinsurance agreement for wind and liability risks. The per risk excess of loss section of the agreement pertains to fire risks and consists of two layers. Under the first layer, the Company retains \$35,000 per risk and CCMIC's limit is \$100,000. The second layer retention is \$135,000 and CCMIC's limits are \$150,000 for commercial and confinement risks and \$400,000 for all other risks. CCMIC's combined per occurrence limit for both layers is \$1,000,000. Risks ceded under the agreement are limited to \$285,000 for commercial and confinement risks and \$535,000 for all other risks. The 2007 premium rate, as a percentage of written premiums, equaled 25% for layer one coverage and 2.625% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to fire risks and consists of two layers. Under the first layer, the Company's retention is \$98,000 per occurrence, and CCMIC's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,098,000, and CCMIC's limit is 100% of \$7,000,000. CCMIC's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$14,000,000 for the second layer. The 2007 premium rate was \$.1780 and \$.3813 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. CCMIC is liable for 95% of losses in excess of 75% of the Company's net written premium, with an annual limit of \$2,000,000. The 2007 reinsurance rate was 9% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to CCMIC and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a cash basis. The CPA firm of Van de Ven, LLC performs an annual review of the financial statements, compiles the annual statement and prepares tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2007

Bonds	\$1,665,505
Stocks	193,827
Real Estate	29,840
Cash on Deposit	1,284,974
Reinsurance Recoverable on Paid Losses	23,024
Interest Due and Accrued	32,199

Total Assets	\$3,229,369
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Unpaid Losses	\$ 38,500
Ceded Reinsurance Premium Payable	12,264

Total Liabilities	\$ 50,764

Guaranty Fund	\$ 150,000
Other Surplus	3,028,605

Total Surplus	3,178,605

Total Liabilities and Surplus	\$3,229,369
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Assessments Earned	\$ 255,207
Other Insurance Income	3,026
Net Losses & Loss Adjustment Expenses Incurred	(275,530)
Other Underwriting Expenses Incurred	(176,629)

Net Underwriting Income (Loss)	\$ (193,746)

Investment Income	\$ 163,595
Other Income	0

Gross Profit (Loss)	\$ (30,151)
Federal Income Tax	0

Net Income (Loss)	\$ (30,151)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	\$3,220,160
Net Income (Loss)	(30,151)
Market Adjustment on Stocks Held	(11,404)

Policyholders' Surplus, December 31, 2007	\$3,178,605
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 5)

It is recommended the Company include attendance records in future membership meeting minutes in order to document that quorum requirements are met.

Territory and Plan of Operations (Page 6)

It is recommended the Company adopt a written agreement with its agent that includes time limits for the delivery of fully completed applications to the home office and states who is responsible for obtaining errors and omissions coverage for the agent.

Policy Forms and Underwriting Practices (Page 6)

The Company does not have a written policies and procedures manual in place. It is recommended the Company draft and approve a written manual. The manual should address such items as investment policies, underwriting guidelines, inspection and adjusting procedures, job descriptions, employee benefits, conflict of interest, and check signing policies.

SUBSEQUENT EVENTS

The Company's long-time reinsurer, Cameron Country Mutual Insurance Company, ceased offering reinsurance after December 31, 2007. Consequently, the Company placed its 2008 wind reinsurance program through intermediary Guy Carpenter & Company, LLC with various reinsurers, and placed its 2008 liability reinsurance program with Cameron Mutual Insurance Company. The coverage afforded under the 2008 reinsurance contracts did not differ significantly from that provided under the 2007 reinsurance program.

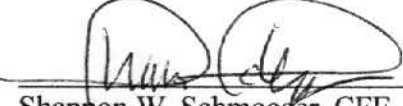
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Monroe County Farmers Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 10th day of December, 2008.

My commission expires:

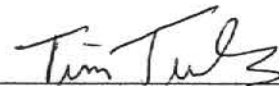
May 18 2012


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP